

Simplicity is key for sustainable investment

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Kate Hodson, Partner and Head of ESG funds at law firm Ogier in Hong Kong, says keeping it simple was the key message from a joint webinar between Guernsey Green Finance and the Hong Kong Green Finance Association

Guernsey has seen an increasing flow of business with Hong Kong in recent years, particularly in private wealth.

The two jurisdictions also share a leadership position in green and sustainable finance. Both are members of the United Nations' Financial Centres for Sustainability network and last year Guernsey Green Finance linked up with the Hong Kong Green Finance Association (HKGFA) for a webinar on funds structuring and the financing of sustainability.

It is impressive to see the progress that both jurisdictions are making as centres of green and sustainable finance.

The learnings which I took from our chat on the webinar with Tracy Wong Harris, Deputy Secretary General at the HKGFA, were the need to keep things simple - we can take inspiration for that from what is happening with green investments on the bond market - and learn to do all we can to avoid concerns about an "explosion" of reporting demands, which could potentially create confusion in the market.

The development of this sector in Hong Kong has been rapid over the past couple of years, fuelled by a mix of green finance policy enhancements, strong project financing and seeking to meet investor demands for environmental, social and governance (ESG) across Hong Kong and China.

Recently the Securities and Futures Commission (SFC) of Hong Kong issued a consultation paper

suggesting changes that would require fund managers to consider climate-related risks in their investment and risk management processes, thereby looking to align the Hong Kong funds industry with other international developments.

The market in the global financial centres pioneering these developments, is clearly poised for a wall of new capital flows.

We have to look at ways to unlock this fresh capital, and we can learn from the experience of the bond market. But we cannot stop there, we need to look at all areas of the finance supply chain, and the SFC's move shows that this is the direction Hong Kong is headed.

Certainly the bond market is at the more mature end of the green and sustainable finance wave. In Hong Kong at the end of 2019, total green bond issuance was HK\$26 billion. The Hong Kong government has issued its first HK\$1 billion green bond, which was oversubscribed four times, and it has since announced plans to issue a further HK\$66 billion over the next five years.

Hong Kong's green bond programme seeks to demonstrate government support for the sector, position the jurisdiction as a global market leader, and set a benchmark for green bond products.

Aside from encouraging market developments, we also hear concerns that the complexity of the ESG, green and sustainable finance landscape could cause confusion and create extra costs.

ESG reporting has, for some, grown from a page of the annual report to 20-30 pages, or even a separate report, said Guernsey-based Kevin Smith from fund administrator Ocorian as part of our webinar discussions.

Other challenges for the sector include increasing reporting demands on portfolio companies, and the subjectivity in the process, driven by a lack of a global standards, which is an issue raised worldwide.

“There are so many taxonomies and principles out there, different for each region, so it's really difficult for the investors themselves to know and to get a clear picture of what's going on across countries across funds and across different regions,” he said on our webinar.

A key part of Guernsey's contribution to the debate has been the development of the Guernsey Green Fund, the world's first regulated green fund, which was introduced to the market in 2018.

The product has created interest from managers worldwide, attracted by its simplicity, transparency and robust nature, and the ability to structure further, including sidecar arrangements and co-investment.

The first such Green Fund manager, ADM Capital, which is split between the UK and Asia, reported that its fundraising was enhanced when it went out to investors with the backing of Green Fund status.

Guernsey's combination of a simple, flexible private fund regime, the respected Green Fund regime, and private wealth advisory expertise, can provide a winning combination for private investors looking to invest sustainably.

To view the webinar, where Kate Hodson was a panellist, in full, go to:

<https://www.weareguernsey.com/finance-events/2020/hong-kong-masterclass-funds-structuring-and-financing-sustainability/on-demand/>

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